

**MONTGOMERY COUNTY
PEPCO WORK GROUP
CUSTOMER RELATIONS
SURVEY FINDINGS**

The Work Group determined that it was important to seek information related to the costs of outages and the willingness of Pepco's customers to pay (through rate increases) for investments in reliability measures, despite reports of Pepco's customers' intense frustration at Pepco's performance. Thus, the Work Group developed online surveys for residential customers and for commercial customers and released them on January 7, 2011. The Work Group directed questions to Montgomery County Pepco residential and business customers. The survey closed on February 14, 2011 with 10,895 residents and 654 businesses having completed the questionnaire.

While the design and execution of any online survey has its limitations¹, the data provides very useful information that can serve as a guide for both assessing the economic impacts associated with long outages as well as the degree to which policy choices made by legislators are likely to be supported by Pepco's customers.

- Almost 95% of Montgomery County Pepco customers who responded to the Work Group survey reported that they had experienced at least one outage of more than five hours in the past year. About 50% of Montgomery County Pepco customers who responded to the Work Group survey also reported that they had experienced non-major-event-related outages of more than one hour in the past year.
- The economic costs of long outages experienced in the past year can be estimated, based on reports obtained from survey respondents, to be a total of \$22.9-\$114.6 million for residents in Montgomery County and \$21.1 - \$211 million for businesses. Pepco's Montgomery County customers appear to be incurring outage-related costs that are on the same order of magnitude as Pepco's 2010 earnings of \$139 million².
- 10,430 residential respondents, or 95.7%, experienced one or more outages of longer than 5 hours in the past year. Of these respondents, almost 65% reported calling Pepco more than twice to check the status of the outage. Only 5% of Pepco's residential customers reported that they didn't attempt to call Pepco at all. Of those who experienced long outages, 85.5% incurred costs or other economic losses that they otherwise would not have incurred.
- 609 commercial respondents, or 94.9%, experienced one or more outages of longer than 5 hours in the past year. Of those who experienced long outages, 83.3% incurred costs or other economic losses that they otherwise would not have incurred.

¹ The individuals who respond to such surveys are self-selected as opposed to randomly selected, there is no way to ensure that people respond only one time, etc.

² <http://phx.corporate-ir.net/phoenix.zhtml?c=62854&p=irol-newsArticle&ID=1533010&highlight=>

BLUE SKIES EXPERIENCE

51% of residential customer respondents also reported experiencing outages of longer than 1 hour that were not associated with a storm or other major event. See Figure 1 for a look at how many such outages were experienced.

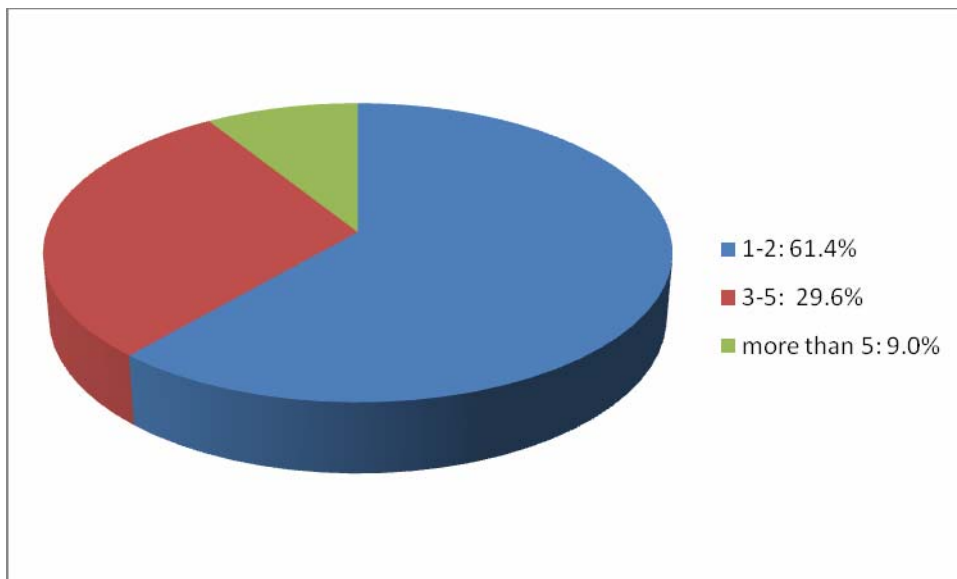


Figure 1: How Many Shorter Outages were Experienced by Residential Customers

54% of commercial customer respondents also reported experiencing outages of longer than 1 hour that were not associated with a storm or other major event. See Figure 2 for a full depiction of the number of such outages experienced.

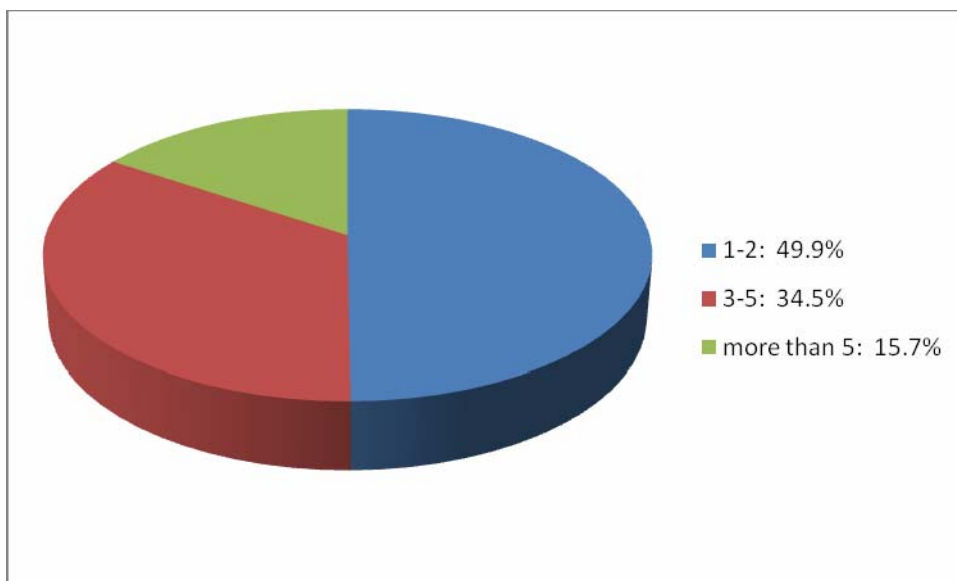


Figure 2: How Many Shorter Outages were Experienced by Commercial Customers

COSTS OF OUTAGES

The median costs to residential customers reporting costs associated with outages was \$100-500, with 51.9% of those who experienced losses reporting this range for the magnitude of those losses (Please see Figure 3). If this value is extrapolated to all 280,003 of Pepco's residential customer base (as adjusted to reflect the 95.7% of residential customers who reported that they experienced long outages and the 85.5% of those who reported that they incurred economic losses), then one can roughly conclude that the costs to Montgomery County residents of outages in the past year is \$22.9-\$114.6 million.

Put another way, if these costs were distributed among all of Pepco's residential customers and expressed as a monthly charge, the cost of outages to residential customers would be \$6.82-\$34.09/month, far in excess of the \$1.25/month that Pepco's reliability plan is expected to cost. It is unclear whether Pepco's reliability plan will be sufficient to either achieve first quartile performance or comply with as-yet unspecified reliability standards. It is also certain that no matter what these standards are, long outages (and the costs associated with them) will continue to occur. But this comparison is nevertheless an illustrative means of describing the considerable economic costs that outages cause.

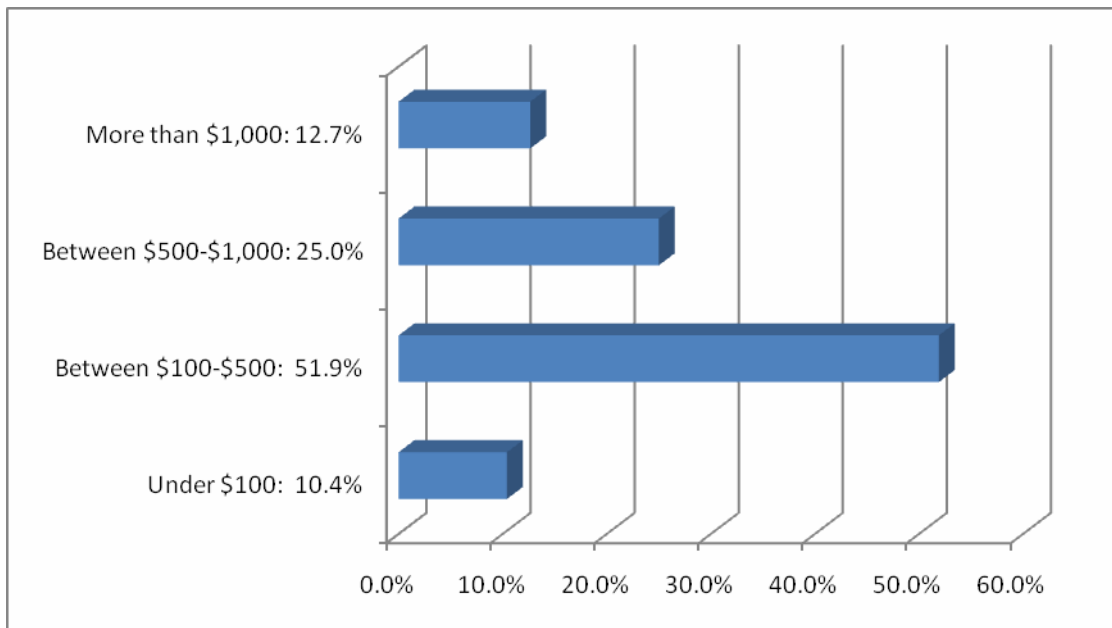


Figure 3: Costs of Outages to Residential Survey Respondents

The median costs to commercial customers reporting costs associated with outages was \$1,000-10,000, with 52.2% reporting this range as the magnitude of their losses (please see Figure 4 for the full response to this question). If this is extrapolated to all of 26,691 Pepco's commercial customer base (as adjusted to reflect the 94.9% of commercial customers who reported that they experienced long outages and the 83.3% of those who reported that they incurred economic losses), then one can roughly conclude that the costs to businesses of outages in the past year is \$21.1- \$211 million.

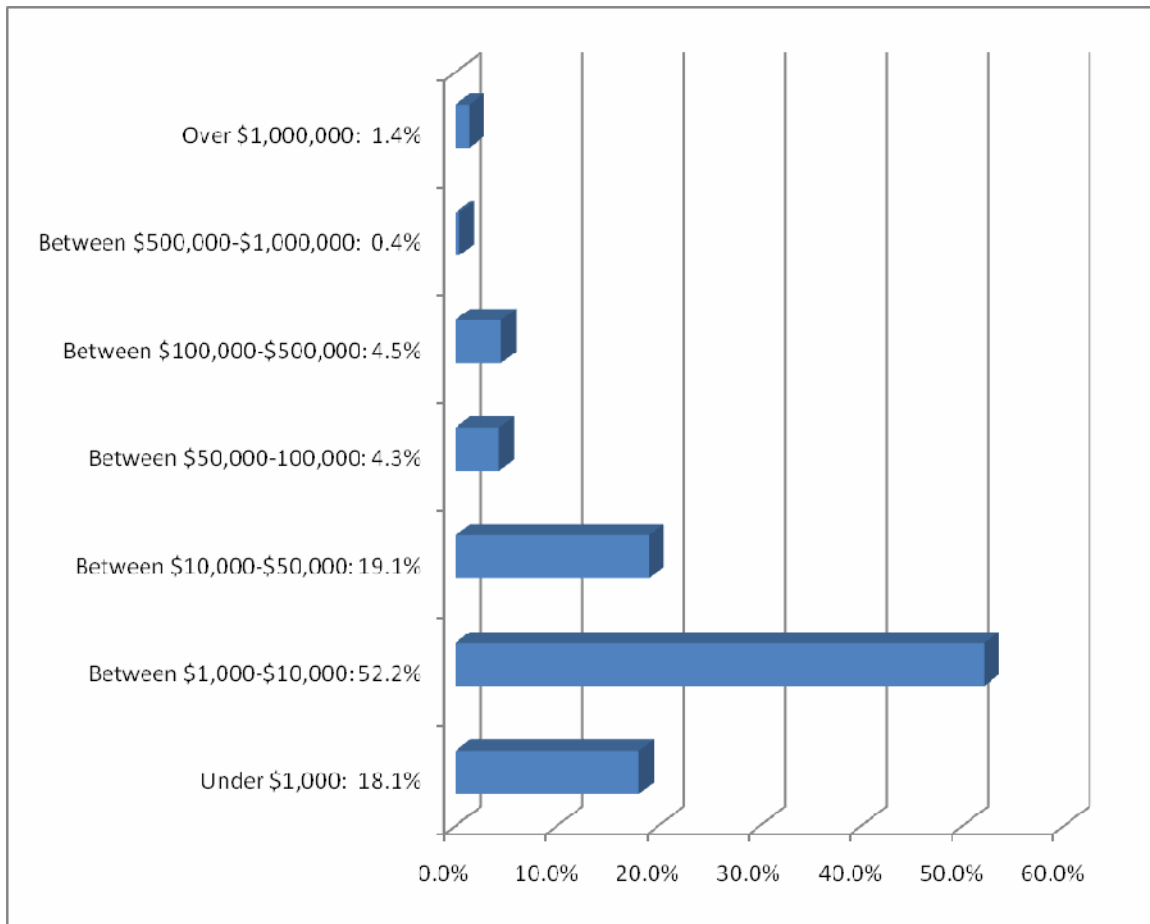


Figure 4: Costs of Outages to Commercial Survey Respondents.

More than 91% of the commercial respondents (589 out of 642) reported that they employ under 100 employees, and 55% of these companies reported losses of between \$1,000-10,000 . The relative magnitudes of these losses as a function of a typical day's revenue for these companies is depicted in figure 5

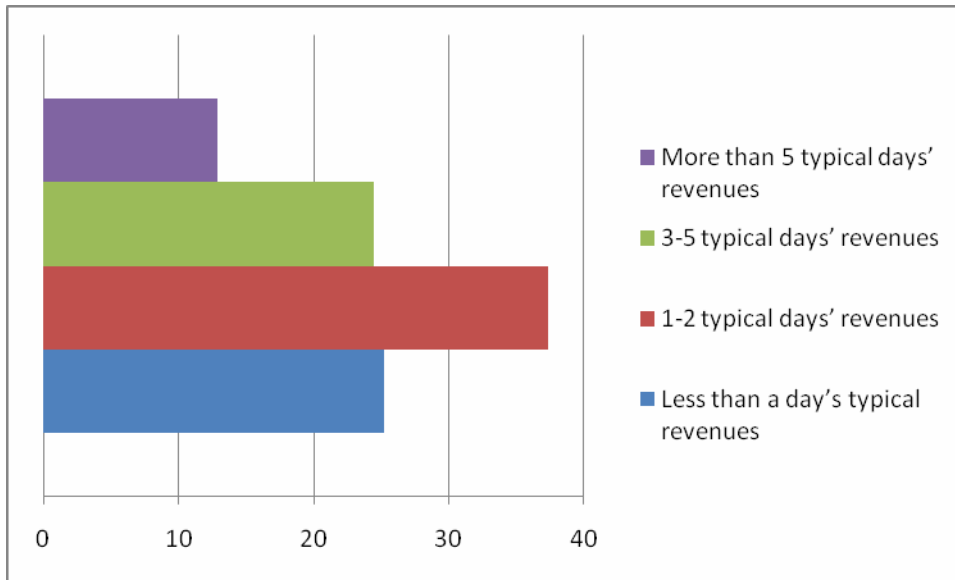


Figure 5: Percent of commercial respondents who reported economic losses due to long outages.

POLICY CHOICES PREFERRED BY CUSTOMERS

More than 52% of residential respondents indicated that they would *not* support a request by Pepco to recover all the costs of reliability investments from ratepayers, believing that Pepco's investors or shareholders should pay for some of the costs, and 30% would only be willing to pay for the investments if Pepco had to comply with strong reliability standards. The full response to this question is depicted in Figure 6.

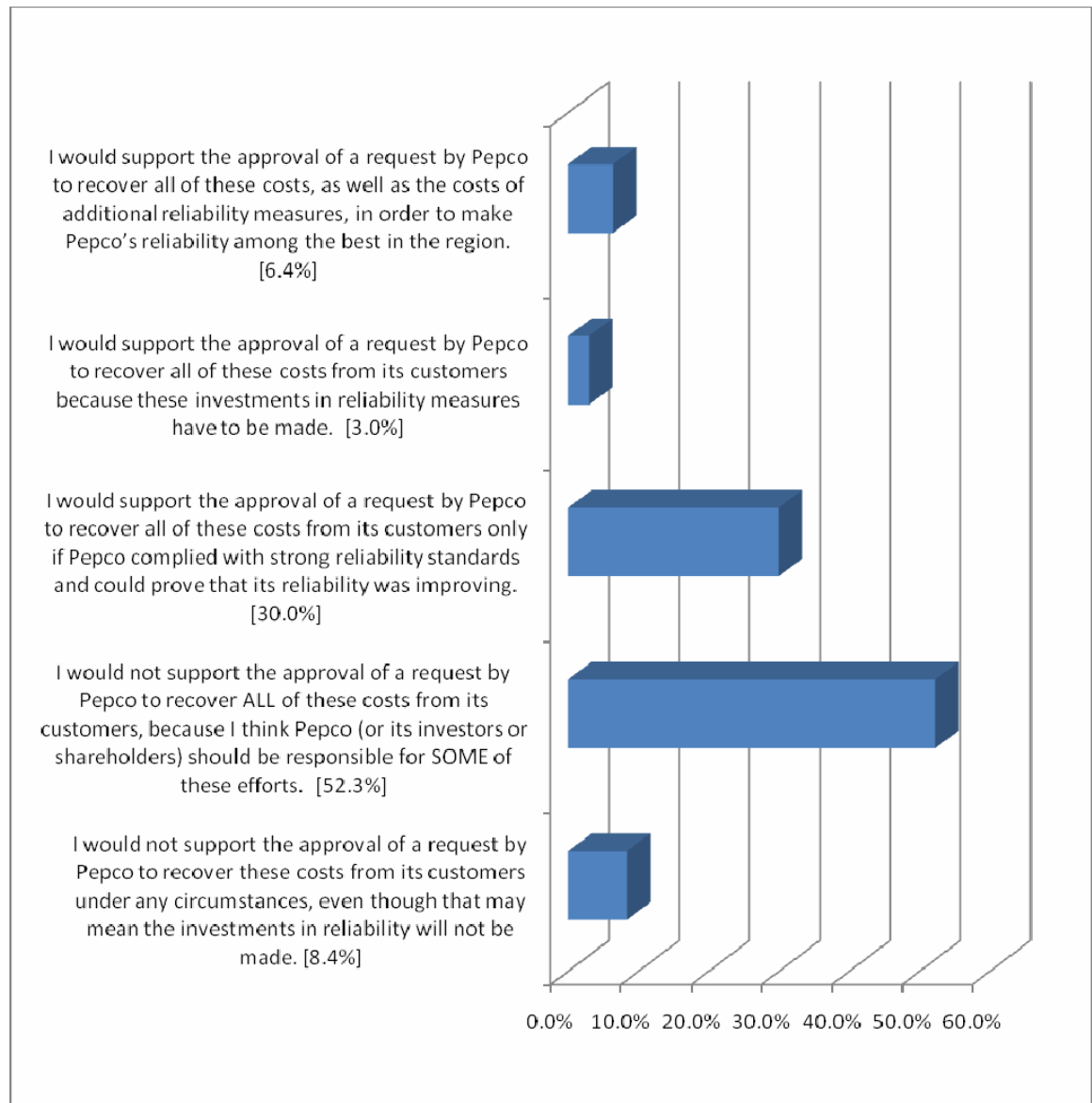


Figure 6: Policy Choices Supported by Residential Survey Respondents

More than 50% of commercial respondents indicated that they would *not* support a request by Pepco to recover all the costs of reliability investments from ratepayers, believing that Pepco's investors or shareholders should pay for some of the costs. More than 21% of commercial customers would support a request to recover costs of reliability improvements from ratepayers only if Pepco complied with strong reliability standards. The full response to this question is included in Figure 7.

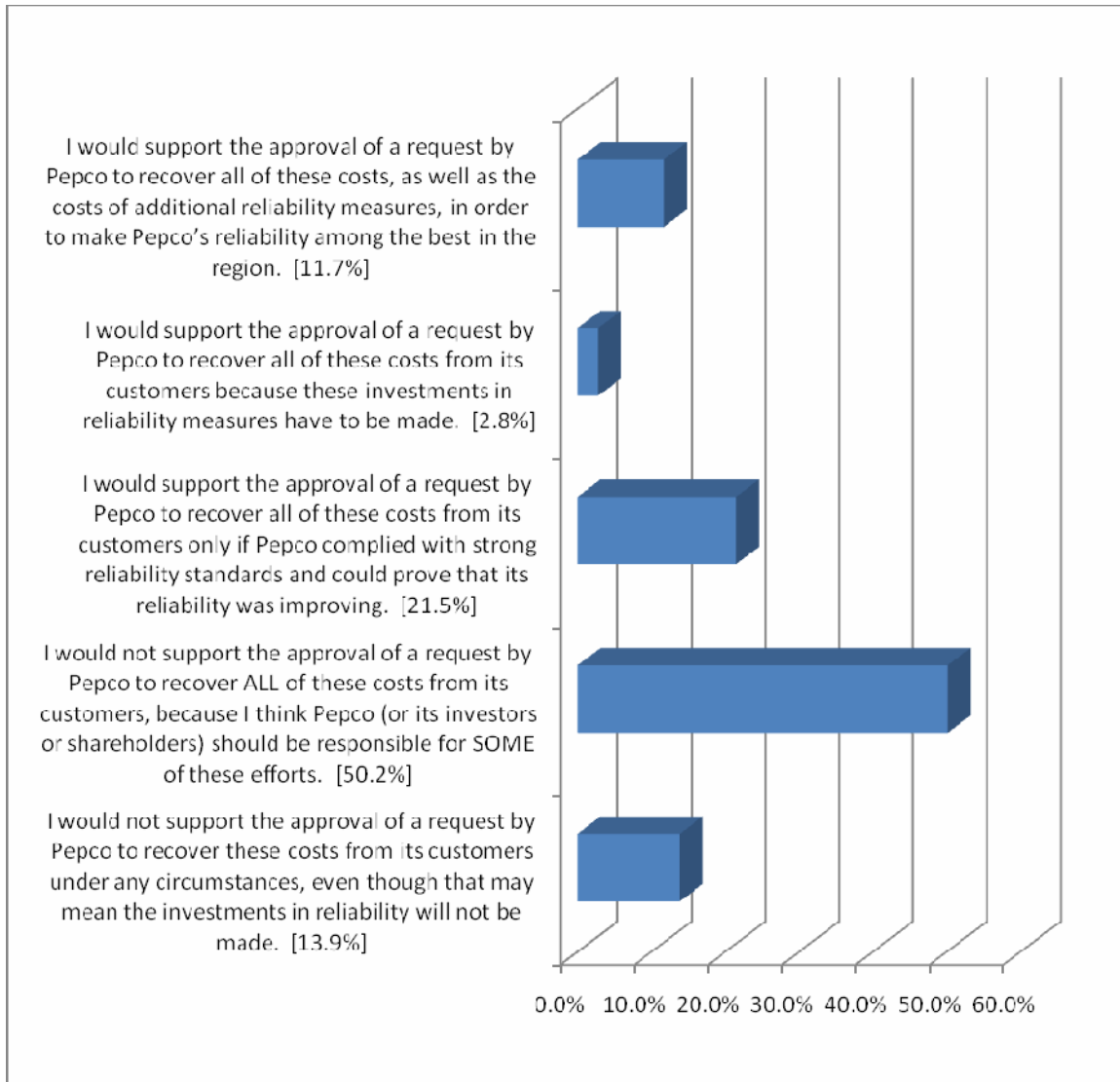


Figure 7: Policy Choices Preferred by Commercial Survey Respondents